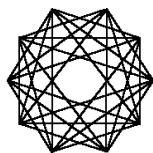


**USAID  
Social  
Sector  
Reform  
Program in  
Ukraine**

**DECEMBER 1998**



**PADCO / USAID**

**Kyiv, Ukraine**

**Tel.: (380 44) 463 7615, -16, -18**

**FAX: (380 44) 463 7614**

**e-mail:**

**rvaughan@padco.kiev.ua**

**ANNOTATED  
BIBLIOGRAPHY  
FOR THE  
SOCIAL SECTOR  
REFORM PROJECT  
IN UKRAINE**

## **PREFACE**

This report is prepared as a guide to the activities of the Social Sector Restructuring Project that has been conducted in Ukraine under contract with USAID, beginning in January 1995. It briefly summarizes the activities of the project in eleven different areas – identifying the major successes and the problems encountered in the course of the project. In each of these issue areas, it lists the major publications that have been prepared – together with a brief description of the contents of the material.

The USAID/PADCO Social Sector Reform Program began by providing technical assistance to the Government of Ukraine in the design and implementation of a targeted housing subsidy program. The program protects low-income people from the full impacts of the large increases in tariffs for housing and communal services that began in early 1995 and reached full cost recovery in July 1998.

Because of the success of the housing subsidy program, the USAID/PADCO project has expanded into other areas of social insurance and social assistance. It is providing technical assistance to the Government of Ukraine to design and develop a targeted family assistance program that provides cash benefits to very low-income families. It is also assisting the GOU in improving measures of family income and expenditures and systems for establishing the poverty level. Finally, the program is supporting the government in reforming the state pension systems and in laying the legal and institutional foundation for non-state pension systems.

The intention is to provide other USAID contractors and other international donors working in the area of social protection policy with an introduction to the work already undertaken and the material available. Unless otherwise indicated, all the reports listed in the bibliography are available in both Ukrainian and English. It is hoped in this way to avoid the duplication of effort and to allow technical assistance entities to build on the work already performed.

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## ABBREVIATIONS AND GLOSSARY OF TERMS

### Abbreviations:

CoM = Cabinet of Ministers  
 GosKomStat = State Committee for Statistics (formerly MinStat)  
 GOU = Government of Ukraine  
 MinFin = Ministry of Finance  
 MLSP = Ministry of Labor and Social Policy (formerly MSP = Ministry of Social Protection)  
 PADCO = US Consulting firm under contract with USAID for social sector reform project  
 SCACH = State Committee for Architecture, Construction, and Housing (formerly SCHME = State Committee for Housing and Municipal Economy)  
 TACIS = The Technical Assistance (program provided by the European Union) for the CIS

Some terms used in the following discussions of the activities of the social sector restructuring project are used in the specific Ukrainian context which may differ from their use in other countries.

**Appeals:** The procedure which applicants may take if they feel they have been unfairly denied a housing subsidy or have been granted an insufficient amount. The appeal process has three steps: 1) appeal to the manager of the housing office; 2) an appeal to the local administrative commission; and 3) an appeal through the courts.

**Application:** The document filled in by an applicant and submitted to a housing subsidy office. The application must be accompanied by certificates of the incomes of all working age adults, the family structure, and the payments for all housing and communal services.

**Communal Services Enterprises:** Enterprises that produce and distribute communal services -- usually owned by the local government. These include heating companies, water companies, waste water treatment companies, garbage disposal companies, and ZHEKs.

**Counterpart:** The Ukrainian individuals and organizations with whom PADCO works.

**Family:** All adults and children with propiskas on the same floor space. This differs from the definition of "family" in Family Assistance programs administered by MLSP -- which is limited to children and their parents -- and all of whom may not necessarily live in the same apartment. Other individuals who live in the same apartment are not included.

**Housing and Communal Services:** "Housing" refers to the payments made by owners and tenants of apartments for monthly maintenance. "Communal services" would be referred to "utilities" in the west. In accordance with Decree No. 848 of the Cabinet of Ministers, as amended, housing and communal services include the following: water supplies, district heating, natural and bottled gas supplies; waste water disposal, and solid waste disposal. These are produced and distributed by communal services enterprises. Communal services not covered by the housing subsidy program include charges for radio and TV service.

**Housing Subsidy:** A discount of monthly payments for housing and communal services for the families whose monthly payments for housing and communal services within the norm of use exceed the percentage of their total income, determined by the Cabinet of Ministers. The housing subsidy office defines the amount of a subsidy, calculating it for every family. This amount is valid for a period of six months, after which it should be recalculated. However, if there are changes in the family conditions, in incomes, etc., the subsidy can be recalculated earlier.

**Housing Subsidy Office (HSO):** The office created by raion or city governments to receive and process applications by families for housing subsidies. Offices are subordinated to the Ministry of Labor and Social Policy in nearly one half of all oblasts.

**Housing Subsidy Program:** The nationwide program established by Decree No. 89 of the Cabinet of Ministers, issued on February 4, 1995 -- as amended. The program requires all local governments to open

housing subsidy offices to serve people within their jurisdiction.

**Norm of Use/Sanitary norm:** The amount of space for which a family is eligible is set by a normative of 21 square meters for each member of the household plus 10.5 square meters for the household unit. Normatives are also used as the basis for calculating monthly payments for all communal services that are not metered. For example, cold water charges are based on assuming that each person in a household uses 6.8 m<sup>3</sup> of water each month. This is referred to as the normative for water use.

**Participant:** A family that has applied for and been granted a housing subsidy.

**Propiska:** A certificate of registration that shows that an individual is entitled to live at a specific address. The housing subsidy counts as a household (or, informally, family) all individuals that have propiskas to live in an apartment or house. Although Ukrainian law defines family (parents and children – even if they do not all live at the same location), there is no legal definition corresponding to the term “household”. Instead, the neologism “propiskered people” is used.

**Recertification:** Recertification is the process through which a participant reapplies for a housing subsidy. All participants must recertify at the end of the six-month term for which subsidies are granted. Households consisting of individuals whose sole source of income is from the pension system are granted a subsidy for 12 months.

**Reporting Requirements:** Housing subsidy offices prepare monthly reports for statistic and financial agencies. Local governments may also require subsidy offices to prepare reports and certificates about the program for such organizations as ZHEKs, communal service enterprises, city, raion, and oblast executive bodies.

**Sanitary Norm:** Sanitary norm of owning and using housing floor space is determined on the basis of 21 square meters for a tenant and each family member. For those living in one-room flat, there is no normative and the full floor area counts as eligible for subsidy.

**Social Normative:** In late 1996, under Decree of the Cabinet of Ministers No. 541, an experiment was undertaken to simplify the process of applying for subsidies. In several pilot raions, families simply had to present to the subsidy office their application form accompanied by income certificates and a certificate from the passportiste showing how many family members had *propiskas* (official permits) to live at that address. In the experiment, there was no need for families to collect certificates from each of the communal services enterprises to which they paid monthly accounts. Subsidies were calculated on the basis that participants lived in apartments of an average size for similarly sized families. The “social normative” used in the experiment assumed that single person families lived in apartments of 31.5 m<sup>2</sup>, 2-person families in 40 m<sup>2</sup>, 3-person families in 45 m<sup>2</sup>, 4-person families in 50 m<sup>2</sup>, and families with five or more members in 55 m<sup>2</sup>.

**Subsidies for Liquid Gas and Solid Fuel** Many rural families live in private, single family homes and receive few communal services. The housing subsidy program assists these families with their annual purchases of liquid gas or solid fuel needed to heat their homes during the seven month heating season.

**Tariffs:** Refers to the monthly prices charged for communal services.

**Total Family Income:** The income earned by all family members during the three months preceding the month in which the application form is submitted to the housing subsidy office. Income includes benefits from the sources listed in Item 7 of the Regulations on Allocating Subsidies for the Population to Offset Expenses Connected with the Housing and Communal Services Payments, approved by Decree No. 89 of the Cabinet of Ministers, issued on February 4, 1995. These income sources and the documentation required to verify them are described in the informational material accompanying the applications.

**ZHEKs:** Government agencies responsible for maintaining the public space around and within apartment buildings as well as plumbing, electrical systems, elevators, and other services.

## **INTRODUCTION TO SOCIAL SECTOR RESTRUCTURING PROJECT AND BIBLIOGRAPHY OF PROJECT MATERIAL**

### **USAID SUPPORT FOR SOCIAL SECTOR RESTRUCTURING**

Since January 1995, USAID has been sponsoring a program to assist the Government of Ukraine in the restructuring of social sector programs. This project began by concentrating on the design and development of a housing subsidy program<sup>1</sup> and has expanded to issues related to providing targeted family assistance and pension reform.

The objectives of the social sector reform project are:

1. Continue to improve and refine the policy and regulatory framework for the housing subsidy program to reduce national budget expenditures and to enhance economic reform;
2. Improve national and local government capacity to oversee and enforce the housing subsidy and similar benefit programs and thereby operate fiscally sustainable and efficient government programs;
3. Propose policy and legal reforms to create at least three new means-tested, social protection programs that restructure government social expenditures and strengthen economic reform;
4. Promote fiscal and social reform by creating the poverty and social benefit need methodology and data collection structure to restructure social spending;
5. Provide intensive training of Government of Ukraine (GOU) officials and other appropriate individuals in skills needed to develop, implement, and enforce social protection programs.
6. Create the policy environment for a multi-tiered pension system; and
7. Develop a public education campaign for the new principles and policies in the area of social protection.

These objectives, and the collaboration between USAID and the Government of Ukraine on Social Sector Restructuring were formalized in a memorandum of cooperation signed on February 20, 1997.

### **POLITICAL INSTABILITY**

The project has been accompanied by considerable political upheavals that have delayed implementing reforms. The major changes that have affected the project (and that need to be understood because of the changing names) and issues facing the principal counterparts were:

- Prime Minister Lazarenko, appointed in May 1996, was fired in June, 1997.
- Following the appointment of Prime Minister Valeri Postavoyenko in June, many members of the Cabinet were replaced.
- The Vice Prime Minister responsible for social protection issues changed twice. From October 1996 until March 1997, the VP responsible for social protection issues was Victor Mikhailovich Pynzenyk; from March 1997 until August 1997, it was Sergei Tyhypko; and since August 1997, it has been Mikolya Petrovich Bilablotsky.
- The principal counterpart for the social sector restructuring project, the Ministry of Labor and Social Policy, was restructured and renamed in the summer of 1997; before August, 1997 it bore the name Ministry of Social Protection.
- In September 1997, the State Committee of Housing and Municipal Economy was also reorganized and combined with the State Committee for Urban Development and Architecture to become the State Committee for Architecture, Construction, and Housing.

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<sup>1</sup> The most complete summary of the history of the housing subsidy program is in "Making Families Pay for Housing and Utilities: The Experience of Ukraine," PADCO Paper prepared for USAID/RTI International Seminar on Cost Recovery, Washington DC, September 1997.

## OUTLINE OF REPORT

The social sector restructuring project has engaged in a wide range of activities, related to the design and implementation of reforms in targeted assistance programs and social insurance programs in Ukraine. This annotated bibliography describes both the achievements of the work in various aspects of the project and lists the major reports and papers prepared in the course of this work. It is not possible to provide copies in English of the hundreds of draft reports and memos prepared by the Ukrainian staff working on the project. Many of the Cabinet Decrees, for example, that are presented here in their final form, proceeded through dozens of drafts and redrafts as the Cabinet or the counterpart Ministries changed their views about what steps should be taken. Nor does this bibliography include the regular weekly, monthly, and quarterly reports provided to USAID and other donor organizations.

This annotated collection of papers describes the main achievements and activities of the social sector restructuring project. The bibliography is divided into sections corresponding to the major areas of activity. These are:

1. General Policy Advice to the Cabinet of Ministers, the Ministry of Labor and Social Policy,<sup>2</sup> the State Committee for Architecture, Construction, and Housing,<sup>3</sup> and the Ministry of Economy on social protection and tariff issues. The advice from PADCO concentrated on issues related to the preparation of budget cost estimates, changes in tariff policy, the development of long-term strategies, and to the analysis of issues, all at the request of counterparts.
2. Technical Advice and Bill Drafting for the Economic Reform Task Force. In October 1996, the Cabinet of Ministers created an Economic Reform Task Force headed by Vice Prime Minister Victor Mikhailovich Pynzenyk to prepare legislation for submission to the Supreme Rada in early December 1996. USAID/PADCO was requested to support the work of this task force on issues concerned with social protection. Although the Supreme Rada diluted the draft laws beyond recognition, the papers developed for the Task Force laid the foundation for later reforms in social protection legislation pursued by the Cabinet of Ministers and the MLSP.
3. Drafting Laws and Decrees Related to Social Sector Restructuring. The framework for government policy and program administration in Ukraine is carried out under four types of "normative acts": Laws of the Supreme Rada, Decrees of the President, Decrees of the Cabinet of Ministers, and Instructions of the Cabinet or of individual ministries and agencies. More than twenty major normative acts have been drafted, passed, or issued with the assistance of PADCO, which are discussed briefly in this bibliography. In addition, dozens of other normative acts were drafted (some of which were issued) with the assistance of USAID/PADCO. Some of the more important of these are discussed in this bibliography.
4. Design and Implementation of Auditing Systems for Targeted Assistance Programs. A nationwide pilot was carried out to develop auditing for targeted assistance programs, analyzed by USAID/PADCO for the MLSP. This led to the issuing of a decree creating a permanent audit program with new instructions drafted by PADCO and distributed by the MLSP. Two pilot projects were conducted by PADCO to develop software for matching data from housing subsidy applicants with data reported to the Pension Fund of Ukraine and with the State Tax Administration; reports of this work are included in this bibliography.
5. Tariff Policy. Since the housing subsidy program is closely linked to phased increases in tariffs for housing and communal services, PADCO periodically analyzed the fiscal impacts of subsidies and tariff increases.

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<sup>2</sup> Note that this Ministry, the principal counterpart within the GOU for the social sector restructuring project, was restructured and renamed in the summer of 1997. Therefore documents prepared before August 1997 bear the name Ministry of Social Protection; those prepared after that date bear the name Ministry of Labor and Social Policy.

<sup>3</sup> In September 1997, the State Committee was also reorganized and combined with the State Committee for Urban Development and Architecture to become the State Committee for Architecture, Construction, and Housing.



It has prepared many budget analyses for the Cabinet and for MinEcon. It has also prepared reports explaining why tariffs have been increased. At the request of counterparts in the SCACH (formerly SCHME), PADCO prepared a proposal for a program for restructuring the housing and communal services sector.

6. Household Payments for Housing and Communal Services and Household Indebtedness. USAID/PADCO PADCO has regularly examined the extent to which families are paying higher tariffs and has monitored indebtedness among households and budget organizations for housing and communal services. PADCO also worked with the SCACH (formerly SCHME) on systems to improve payments' procedures for housing and communal services.
7. Targeted Assistance to Families. Since 1996, USAID/PADCO has recommended that supplementary assistance be provided to low-income families – those with children, for example, are the poorest families among those receiving housing subsidies. In late 1997, the GOU decided to develop a program along the lines of PADCO's recommendations – leading to the preparation of a draft law submitted to the Cabinet in July 1998. This will be implemented through pilot programs beginning in late-1998.
8. Monitoring and Management. To improve the quality and timeliness of information available on social protection issues, the MLSP finally created Monitoring Centers in Kharkiv and Kyiv that will assume the work presently conducted by PADCO in collecting data and preparing statistical bulletins. USAID provided the centers with computers and related equipment and PADCO has developed nationwide and oblast level reporting systems that have been transferred to Mykolaiv and L'viv oblast and to the centers. The GosKomStat has also collaborated on improving data collection and reporting systems.
9. Pension Reform. USAID/PADCO PADCO has worked in four areas of pension reform: 1) supporting with comments and analysis the CoM, the MLSP, the Pension Fund, and the Supreme Rada in drafting pension reform laws for the state and non-state systems; 2) developing an actuarial model of the pension system of Ukraine and assisting the Pension Fund to create an Office of the Actuary to use the model; 3) designing and implementing a pilot program to reform the way enterprises report payroll and contributions to the Pension Fund of Ukraine; and 4) offering advice, training seminars, and policy papers on pension issues to interested parties .
10. Analysis of Attitudes Among factions Toward Social Protection Issues. Because many social protection issues in which PADCO is involved are debated (often with little notice) by Deputies in the Supreme Rada, PADCO prepared reports analyzing voting by factions on key social protection issues.
11. Miscellaneous Papers and Materials. PADCO has participated in international seminars in Russia, Moldova, and the USA for which papers were prepared. In addition, PADCO has prepared for USAID and for others materials describing the achievements of the social sector restructuring program.

The following sections describe, briefly, the background to the collaborative activities in each of these areas, discuss achievements and difficulties, and list, in chronological order (earliest reports are listed first) the documents prepared. There are two series of publications issued by PADCO to a wider audience (in both Ukrainian and English): these are **Policy Reports** and **The Statistical Bulletin**. The titles of these entries are shown in bold type in the annotated bibliographies.

## 1. GENERAL POLICY ADVICE TO THE GOU

### 1.1 BACKGROUND

Most of the technical assistance and advice provided by USAID/PADCO to counterparts has focused on specific issues that are described in detail in the following sections of this bibliography. PADCO has provided the MLSP, SCACH, and MinEcon – as well as the Cabinet of Ministers – with many memoranda, policy papers, and fiscal analyses at the requests of these counterparts. The advice from PADCO has concentrated on the development of long-term strategies, budget cost estimates, and changes in tariff policy.

Until October 1997, there was no clear consensus within the Cabinet about the direction in which social assistance and social insurance policy should move. The prime counterpart for the USAID/PADCO project, Deputy Minister Noshchenko of the MLSP, was committed to moving toward a system based on means-tested benefits, targeted at low-income families – priorities that had also been stressed by Vice Prime Minister Pynzenyk. Many succeeding Ministers and Vice Prime Ministers, however, have been less aware of the issues and of the fiscal necessity of replacing general entitlements with targeted benefits.

An important part of PADCO's PADCO work with counterparts has been to explain – and to explain again and again – the overall strategy of targeting government social assistance at low-income households. An equally important function of papers and memoranda prepared for counterparts on social protection issues has been to provide a new perspective on the process of policy-making. PADCO's policy papers have attempted to establish a three-part format for discussing policy issues. The first part describes the problem; the second part explores options for resolving the problem – usually using empirical analyses based on the growing volume of data assembled by PADCO; the third part makes recommendations.

### 1.2 ACHIEVEMENTS AND DIFFICULTIES

Achievements. Many of the specific recommendations that started as parts of long-term planning or options papers have, in the end, become part of GOU policy. These include auditing, monitoring program outcomes, the generation of management information, and targeting family assistance are a few notable examples (each discussed in other sections of this report). The reasons for this success have been PADCO's policy to state the basic recommendation simply and clearly (PADCO's experienced interpreters and translators are important in achieving this), to back up recommendations with logic and empirical analyses, and to repeat the message again and again in as many different contexts and forums as possible.

Because of its reputation for compiling and analyzing data on social protection issues, PADCO was called upon repeatedly by the Cabinet of Ministers, MinFin, and MinEcon to prepare budget estimates under different scenarios concerning tariffs, family payments, and privileges. These estimates have been used as the basis for four successive State Budgets.

In October 1997, the President released a workplan for the development of the social sector that includes many of the ideas first expressed and laid out by PADCO. Most notably, the message called for the development of a comprehensive, income-targeted program of social assistance that includes housing subsidies and childcare assistance, a unified system of social assistance offices, implementing monitoring and management systems. It also recognizes the importance of auditing.

In February 1998, a special Task Force was created by the MLSP to draft a new law "On Social Assistance." The draft, completed in July 1998 by the MLSP in collaboration with PADCO and TACIS, proposes to expand the housing subsidy program into a comprehensive welfare system for poor families. It is anticipated that this will be issued as a draft law for the Supreme Rada by the end of 1998 and will be implemented in the form of a pilot programs beginning early 1999.

The MLSP has also learned the importance of timely and accurate reporting systems which led it to create Monitoring Centers and to emphasize office automation (see Section 9). Instead of relying on laborious hand calculation for preparing monthly reports, the MLSP now uses automated systems. It also uses e-mail to distribute documents to all oblasts.

**Difficulties.** The greatest failure in this area has been the fact that the MLSP has not adopted a “social normative” as the basis for granting subsidies. At present, the system for applying for means tested assistance requires families to provide detailed information on their actual monthly payments for housing and communal services. This is relatively easy in communities where all payments are made at one place. But more and more communal services enterprises are billing households separately, necessitating the collection of several different certificates from different enterprises. PADCO proposal (first made in April, 1995, before housing subsidy offices had even opened) that families be granted subsidies based on a “normative” level of services received led to a pilot project in Kyiv and L’viv Oblasts in early 1997. This was not conducted efficiently in L’viv because of the oblast decision to offer applicants the choice of alternative subsidies. As a result, the MLSP has been reluctant to return to the issue – even though Decree 1050, issued by the CoM in September 1997 called for this approach to simplify the system.

### 1.3 ANNOTATED BIBLIOGRAPHY: GENERAL POLICY ADVICE

#### 1.1 “Policy Report No. 20: Report on Experiment Using Subsidy Normative as Basis for Calculating Housing Subsidies,” Prepared Jointly with the Ministry of Social Protection, March 1997.

*Between August and December 1996, an experiment was carried out in raions in L’viv and Kyiv Oblasts to test an alternative way of computing subsidies that would provide a simplified application process.<sup>4</sup> Instead of calculating subsidies based on what families actually paid for housing and communal services, subsidies were calculated based on the size of the family – assuming that larger families occupied larger space. The “social normatives” for space were calculated so that there would be no large changes in the total cost of the subsidy program. Large families in small apartments would pay less while small families in large apartments would pay more. Most families would experience no change; but the number of certificates families would need to provide with their application forms was sharply reduced. The experiment was successful at only one site: at other sites, local administrators made decisions that impeded the experiment.*

#### 1.2 “Proposals for Amending Decree 848 to Improve the Housing Subsidy Program,” Prepared at the request of the Ministry of Social Protection, April 1997.

*This paper outlines four ways in which Decree 848 should be amended to improve the design and operation of the housing subsidy program. These are: 1) To make all housing subsidy offices directly subordinated to the Ministry of Social Protection of the Population of Ukraine; 2) To require all working age adults applying for housing subsidies to file a minimum income equal to the per person poverty level of 70.9 Hrn/month unless they are registered as unemployed; 3) To introduce a “subsidy normative” – demonstrated in the pilot programs in Kyiv -- as the basis of estimating communal service payments to simplify the processes for applying for subsidies and for calculating subsidies; and 4) To introduce a new method for calculating subsidy payments due to communal services enterprises that allows for separate billing and metered services. The recommendations are backed by empirical analyses using the pilot raion database. These recommendations were adopted with some amendments in Decree 1050, issued in September 1997, (the zero income declaration was set at 37 Hrn./month).*

#### 1.3 “Four Point Plan for Reform of the Social Sector in Ukraine,” Prepared for Vice Prime Minister Sergei Tyhypko, Cabinet of Ministers of Ukraine, May 22, 1997.

*The proposal describes the need to increase tariffs as scheduled in June, 1997, to restart the stalled*

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<sup>4</sup> This pilot program was authorized by Decree 541, which included this proposal because of PADCO issuing “Policy Report No. 6: Ways to Simplify the Housing Subsidy Program,” in April 1996.

*pension reform process, to create a nationwide system of targeted assistance offices, and to reduce the administrative costs of social assistance programs.*

1.4 “Analysis of Budget Costs of Options for Improving the Housing Subsidy Program in 1997,” Prepared for Deputy Minister Mikolya Noshchenko, Ministry of Social Protection, May 22, 1997.

*The paper describes estimates of the impacts on the 1997 budget of raising tariffs to cover 100% of the costs of housing and communal services, and of proposals to improve the system of collecting payments from families for housing and communal services, and of proposals to improve the administration of the housing subsidy system..*

1.5 “Six Point Plan for Tariff and Communal Services Sector Reform in Ukraine,” Prepared at the request of Nadezdha Malish, Advisor to the President for Social Protection, June 16, 1997.

*The paper outlines steps that should be taken to begin the process of restructuring the housing and communal services sector in order to improve the level of services received by the population by eliminating monopolies and creating a transparent tariff setting procedure. Shortly after the paper was submitted, the Prime Minister was fired and the Cabinet reshuffled – preventing any immediate action. This paper formed the basis for a proposal later submitted to USAID for a pilot project in L’viv (see Attachment A).*

1.6 “Summary of the Achievements of the Housing Subsidy Program,” Briefing Paper prepared for Vice Prime Minister M. P. Bilablotsky at the request of Deputy Minister Noshchenko, August 15, 1997.

*The paper provided the incoming Vice Prime Minister with a brief summary of the major achievements of the housing subsidy program.*

1.7 “The Decline in Participation in the Housing Subsidy Program During May 1997,” Prepared for Deputy Minister Noshchenko Ministry of Labor and Social Policy, September 8, 1997.

*The paper analyzes the rapid decline in participation in the housing subsidy program during May and June 1997. GosKomStat reported a decrease of 800,000 families between April 30, 1997 to May 30, 1997 – from 3.4 million to 2.6 million. Using data from 19 pilot raion departments, the paper identifies the sites where the decline was greatest and relates this to information on the use of natural gas for heating. Declines occurred fastest in raions where natural gas was widely used for heating. The heating season – the months during which households pay for heating gas – is from October 1 through April 30. Therefore, the report concluded that enrollment would grow rapidly during October and November. As a result, a special streamlined re-enrollment procedure was designed for computerized housing subsidy offices to be used at the beginning of the heating season in October.*

1.8 “Collection of Articles on Social Protection in the USA,” Prepared for the Ministry of Labor and Social Policy, November 1997 (Ukrainian Only).

*This brings together many different articles collected over the past two years concerned with pension policy, welfare, tax policy and other issues concerned with how the needs of low-income families and individuals receive assistance in the US. The articles include budget summaries for HHS, program descriptions for local welfare and training programs, and application forms.*

1.9 “Collection of Articles on Social Protection in Selected Countries,” Prepared for the Ministry of Labor and Social Policy, November 1997 (Ukrainian Only).

*This collection brings together many different articles concerned with pension policy, welfare, tax policy and other issues concerned with how the needs of low-income families and individuals receive assistance in selected countries. The articles have been collected in the process of preparing for observational tours and some have been downloaded from the Internet. The selected countries include Canada, Czech, Germany, Switzerland, etc.*

1.10 “Implementing a Guaranteed Minimum Income Program in Ukraine,” Prepared for the Ministry of

Labor and Social Policy, September 1998.

*This paper describes the issues involved in creating a Guaranteed Minimum Income Program as the basis for targeting social assistance in Ukraine. The issues discussed include the problem of a high implicit tax rate and how to include assets in determining eligibility for assistance. The paper also estimates the number of families and people as well as the budget costs of implementing such a program. If the level of guaranteed assistance is set at 37 Hrn per capita, about 600,000 families including 1.2 million people would be eligible and the program costs would be 14 million Hrn per month (allowing for offsetting reductions in the cost of the housing subsidy program).*

1.11 "Poverty Among Families Receiving Targeted Social Assistance," Prepared for the Ministry of Labor and Social Policy, September 1998.

*This paper compares estimates of the number of households and individuals with per capita incomes below 37 Hrn per month, 48 Hrn per month, and 73.7 Hrn per month using housing subsidy data and using national estimates prepared by GosKomStat. The report finds that about 13% of the population lives below the poverty level if housing subsidy data are used – about one half the poverty rate reported from official statistics. The report also compares numbers of families receiving targeted childcare assistance with the numbers of families receiving housing subsidies in a raion in Mikolaiv Oblast, where childcare assistance caseloads have been computerized. The finding is that half of families receiving targeted childcare assistance also receive subsidies and that about 12% of families with children receiving subsidies also receive targeted childcare assistance.*

1.12 "Options for Targeting Social Assistance," Prepared for the Ministry of Labor and Social Policy, October 1998.

*This report analyzes the different terms used in the Ukrainian Constitution and in Ukrainian law to define the poverty level. It concludes that there are several competing definitions but that none are linked to targeted assistance programs and none are satisfactory. It recommends redrafting the draft law "On the Minimum Subsistence Level" and using this as the single standard for determining eligibility for social assistance. The report also analyzes the present system for measuring family incomes and expenditures and recommends how the quarterly and annual surveys of income and expenditures should be improved.*

## **2. PREPARING POSITION PAPERS AND DRAFT NORMATIVE ACTS FOR THE ECONOMIC REFORM TASK FORCE**

### **2.1 BACKGROUND**

In October 1996, Vice Prime Minister Victor Mikhailovich Pynzenyk created an Economic Reform Task Force to prepare legislation for submission to the Supreme Rada in early December. PADCO was requested to support this task force on issues related to social protection. The Task Force included essential staff and officials from the Cabinet and from the major ministries and agencies, as well as staff from the Office of the President, Ukrainian experts and representatives of selected donor organizations. PADCO provided four background papers – three of which were later used in separate policy discussions.

Although the draft laws were diluted beyond recognition by the Supreme Rada, the papers developed for the Task Force laid the foundation for later reforms in social protection legislation pursued unilaterally by the MLSP. PADCO participated fully in many discussions of the various working groups that met to develop new programs and policies – intended to cut the budget as well as reform policies and improve program management.

### **2.2 ACHIEVEMENTS AND DIFFICULTIES**

Achievements. At the request of the Task Force, PADCO prepared position papers on Tariff Reform, Tar-

getting Social Benefits, Introducing Meters for Gas and Other Communal Services, and Pension Accounting Reform. PADCO also participated in the preparation of a draft law to eliminate or reduce a wide array of privileges.

The tariff reform paper was used as the basis for preparing the 1997 budget, but the GOU failed to increase tariffs to cover 100% of costs during 1997 and also did not raise the share of income paid by families (see Section 5 below). The GOU eliminated all direct subsidies for housing and communal services sector in July 1998. The Targeting Social benefits paper was developed in subsequent discussions with the MLSP into a program to provide targeted childcare assistance, implemented during 1997 (see Section 7, below). The proposal on meters is now in the process of being implemented with a \$80 million credit from EBRD. The proposal for pension accounting reform became the basis for a pilot project implemented by PADCO during 1997 (see Section 9 below).

Difficulties. Reaction by the Supreme Rada to the package of draft laws was predictably harsh, and support among most members of the GOU (including the President) was lukewarm. This led to the resignation of Victor Mikhailevich Pynzenyk as Vice Prime Minister for Economic Affairs (and social protection), and to another reshuffle of the entire Cabinet.

### **2.3 ANNOTATED BIBLIOGRAPHY: TASK FORCE FOR ECONOMIC AND FISCAL REFORM**

2.1 “Position Paper No. 1: Tariff Increases for Housing and Communal Services,” Prepared for the Task Force of the Cabinet of Ministers on Fiscal and Economic Reforms, November 14, 1996.

*The report provides budget estimates of alternative scenarios for increasing tariffs to raise the rate of cost recovery for housing and communal services to 100 percent at different times during 1997. It also estimates the fiscal impacts of increasing the share of income that families must pay toward the costs of housing and communal services under the housing subsidy program from 15% to 20%. The report also describes measures that should be taken to educate the public concerning the need to raise tariffs and the measures necessary to restructure housing and communal services enterprises to improve the quality of services over time.*

2.2 “Position Paper No. 2: Targeting Family Assistance,” Prepared for the Task Force of the Cabinet of Ministers on Fiscal and Economic Reforms, November 8, 1996.

*The report analyses the fiscal impacts of converting the eleven existing birth and child care allowances into targeted assistance to low-income families. It also describes the steps necessary to implement these reforms and the system changes necessary to the system for administering a targeted system.*

2.3 “Position Paper No. 3: Program To Install Residential Gas Meters,” Prepared for the Task Force of the Cabinet of Ministers on Fiscal and Economic Reforms, November 12, 1996.

*The paper estimates the costs and benefits of alternative programs to subsidize the installation of gas meters in residential apartments of low-income families. The program would be financed with a loan from the World Bank or the European Bank for Reconstruction and Development. The estimates are based on different prices for natural gas and different costs of meters.*

2.4 “Position Paper No. 4: Reform of Pension Fund Accounting,” Prepared for the Task Force of the Cabinet of Ministers on Fiscal and Economic Reforms, November 11, 1996.

*The paper describes the changes necessary to restructure the system of reporting payrolls and deductions by enterprises to the Pension Fund and the changes required in record keeping by the Pension Fund to eliminate workbooks and to discourage firms from participating in the gray economy.*

### 3. DRAFTING LAWS AND DECREES RELATED TO SOCIAL SECTOR RESTRUCTURING

#### 3.1 BACKGROUND

The framework for government policy and program administration in Ukraine is carried out under four types of “normative acts” which are (in declining order of authority under the Constitution adopted in June 1996): Laws of the Supreme Rada, Decrees of the President, Decrees of the Cabinet of Ministers, and Instructions of the CoM or of individual ministries and agencies.

Hiring experienced lawyers to assist in the never-ending task of drafting normative acts is a problem faced by all counterparts. PADCO provided direct assistance through its own legal staff and coordinated and/or paid for the hiring of legal consultants for counterparts on several occasions when its own legal resources were too-thinly stretched.

#### 3.2 ACHIEVEMENTS AND DIFFICULTIES

Achievements. During the 16 months of the project, PADCO has been involved in assisting in drafting more than twenty major normative acts that are discussed briefly in this bibliography. In addition to these, dozens of other normative acts were drafted and some were issued, also with the assistance of PADCO. Some of the more important of these are discussed in this bibliography.

Difficulties. The most significant failure was the fate of the seven economic reforms submitted in a package by Vice Prime Minister Pynzenyk in December 1996, as part of the 1997 budget process. Only two much-diluted bills survived<sup>5</sup> and the 1997 budget was not approved until late July. Because of this, the housing subsidy program remains supported only by Cabinet Decree, privileges for millions of Ukrainians – rich and poor – remain in place, and the system of child care assistance remains a general entitlement rather than a system of assistance based on need.

#### 3.3 ANNOTATED BIBLIOGRAPHY: LEGISLATIVE DRAFTING

##### 3.1 Decree of the Cabinet of Ministers No. 1231, “On Distributing Subsidies for Families for Housing, Communal Services, Liquid Gas and Solid Fuel,” Issued October 5, 1996.

*The decree extended the term of payment of debts for housing and communal services by low-income families according to income per family member. It also decreed that subsidies for natural gas used for heating may be granted for the heating period or spread throughout the whole year.*

##### 3.2 “Instructions for the Implementation of a Pilot Program to Audit the Housing Subsidy Program,” Issued by the Cabinet of Ministers of Ukraine, October 17, 1997.

*These instructions describe how the three-tier audit program is to be conducted by the MLSP, MinEcon, and MinFin and provides reporting forms.*

3.3 Draft Reform Laws, submitted to the Supreme Rada, December 1996. These components were not part of the two laws that passed (Ukrainian only).

*PADCO participated in drafting those parts of the seven reform laws dealing with social protection issues. Among the articles in the draft laws in which PADCO participated were sections making the following changes in social protection policy:*

- *Raising housing and communal services tariffs to 100 percent of cost recovery on June 1, 1997 and also raising to 20 percent the share of family income paid for these services;*
- *Streamlining the application process for housing subsidies;*
- *Streamlining the procedures for collecting communal services payments;*

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<sup>5</sup> These were bills dealing with the reform of taxation of businesses and with the VAT.

- Automating the reporting system;
- Creating a nationwide auditing program;
- Integrating housing subsidy offices with local offices of the MLSP to create a single system of social assistance;
- Broadening the payroll tax base to include salary and wage bonuses and material assistance;
- Cutting payroll tax rates from 52% to 34% of payroll;
- Abolishing workbooks and replacing them with a system of individual pension accounting;
- Targeting birth allowances and family assistance to families eligible for housing subsidies or with per capita incomes below 70.9 Hrn. per month (with an instruction to the CoM to develop a more equitable targeting system during early 1997);
- targeting transit assistance (to the same groups); and
- abolishing a long list of privileges.

3.4 Decree of the Cabinet of Ministers (Never issued), "On Setting Tariffs for Housing and Communal Services," (Ukrainian only).

*This decree would have raised the rate of cost recovery to cover 100 percent of production costs. It was withdrawn at the last minute in June, 1997 when the Cabinet decided not to proceed with the tariff increase.*

### **3.5 Decree of the Cabinet of Ministers No. 1050, "On Improving the System for Distributing Subsidies for Families for Housing, Communal Services, Liquid Gas and Solid Fuel," Issued September 22, 1997.**

*The decree included the following major changes:*

- 1) *The nationwide implementation of a program to audit targeted assistance programs, requiring the MLSP (together with MinFin and MinEcon) to issue the necessary instructions within 30 days to implement the program nationwide. PADCO collaborated with the MLSP in preparing the normative documents which were issued on October 20, 1997.*
- 2) *The preparation, within 60 days, of the necessary normative documents within 60 days to make all offices providing targeted assistance under direct subordination to the MLSP. PADCO collaborated with the MLSP in preparing the necessary legislation and in drafting the Presidential Decrees.*
- 3) *The preparation within 60 days of recommendations for simplifying the procedures for administering the program of housing subsidies.*
- 4) *The establishment of a minimum income to be reported on application forms for working age adults.*

3.6 "Draft Social Assistance Law," Prepared for the Ministry of Labor and Social Policy, July 1998.

*This law, to be submitted to the Supreme Rada in October 1998, provides the basis for significant changes in all social assistance programs, the definition of family, the calculation of the poverty level, the creation of a poverty achievement ratio, and other measures. The new law:*

- *Provides a guaranteed minimum per capita income to Ukrainian families set at a specified fraction of the minimum subsistence level.*
- *Will allow the elimination or reduction of existing privileges and untargeted benefits*
- *Defines "minimum standard of subsistence" (as specified, but not defined, in the Constitution) to replace several existing concepts such as the poverty level, the minimum consumption basket, and other uncoordinated elements of the present social assistance system*
- *Bases the guaranteed income on availability of funds in state budget – to be set each year as part of state budget process*
- *Will consider assets as well as income considered when establishing eligibility (the SSRT, at the request of the MLSP, has completed a paper defining the options for the implementation of this provision. The SSRT fiscal analyses show that the "guaranteed minimum income" set at 37 Hrn per capita per month would cost about 14.5 million Hrn each month.*

*It now seems most likely that the new program will be pilot tested in three or four sites: 1) Mikolaiv, where child care assistance database has already been completely assumed by local Ministry offices;*



2) Dnipropetrovsk - where there is an opportunity – requested by TACIS – to collaborate with the TACIS project which is developing a database of social assistance programs; 3) the City of Kyiv – where all social assistance functions will be administered by the housing subsidy offices. Pilot programs can be conducted under Cabinet decree without amendment of the Law in the Supreme Rada.

3.7 “Draft Presidential Decree Creating Dual Subordination for Housing Subsidy Offices,” Prepared for the Cabinet of Ministers, December 1997.

*This decree –which was to have been issued at the same time that the social assistance framework law is submitted to the Supreme Rada – would have brought all offices providing social assistance directly under the MLSP. The decree was never issued and the social assistance law was delayed pending Rada elections. Instead, it will be submitted in late 1998. Instead of requiring conversion of housing subsidy offices to MLSP subordination, the MLSP decided to allow oblast departments to convert housing subsidy offices to direct subordination voluntarily. By September 1998, housing subsidy offices in about 12 oblasts were either directly subordinated or were dually subordinated.*

## 4. AUDITING OF TARGETED ASSISTANCE PROGRAMS

### 4.1 BACKGROUND

Ukraine – like all other members of the former Soviet Union – provided entitlements such as housing, food, health care, and education – to all families at no-cost or at token cost. PADCO had been recommending the introduction of an auditing system since the first housing subsidy offices opened in May, 1995. The MLSP and MinFin were both opposed to the concept of auditing on the grounds that all subsidies were granted “according to regulations” anyway. They initially supported the idea of audits to verify subsidy calculations calculated by computer! However, stories about the number of undeserving people receiving subsidies grew. Therefore, in response to papers prepared by PADCO describing how an audit system could be set up, the MLSP moved toward supporting auditing. In May 1996, the Cabinet had issued Decree 541, calling for a pilot audit program. Implementation was delayed until late 1997, however, by the dismissal of the Minister of Social Protection (Arkadiy Yershov) and the Prime Minister (Yevgen Marchuk) and by the ensuing Cabinet reshuffle delayed implementation.

### 4.2 ACHIEVEMENTS AND DIFFICULTIES

Achievements. Designed in collaboration between the social sector restructuring team and staff from MinFin, MinEcon, SCHME, and MLSP, a nationwide pilot audit program was conducted during November and December 1996. Auditors from MSP and MinFin audited more than 100,000 applications for housing subsidies to verify employment status and incomes. MinFin also audited tariffs charged by more than 1,000 ZHEKs and other communal services enterprises, and audited intergovernmental financial flows in nearly 100 raions.

At the request of the MLSP, PADCO analyzed the results of the pilot audit program to determine its cost-effectiveness as it pertained to housing subsidy applications. The report showed that, with some amendments to procedures, auditing could yield important savings in excess of the costs of conducting the audit. This report led to the issuing of Decree 1050 – prepared in April 1997, and eventually passed in September 1997 – which, among other things, created a permanent audit program with new instructions drafted by PADCO and distributed by the MLSP.

At the same time, two pilot projects were implemented to develop software programs to match data from housing subsidy applicants with 1) data on wages reported to the Pension Fund of Ukraine and 2) data on incomes reported to the State Tax Administration. Reports of this work are included in this bibliography.

Difficulties. The delay in the passage of Decree 1050 establishing the permanent audit program means that there are no data yet to determine the effectiveness of the audits or to develop automated reporting systems

for local housing subsidy offices and oblasts. The delay also prevented the implementation of an intensive training program for local office staff on how to cooperate with the tax administration and MinFin auditors in the complex audit procedures.

### **4.3 ANNOTATED BIBLIOGRAPHY: AUDITING**

4.1 “Normative Instructions for the Implementation of a Nationwide Program of Auditing Housing Subsidy Applications,” Prepared for the Ministry of Social Protection, February 1997.

*The instructions describe procedures for three types of audits -- auditing income shown on housing subsidy application forms, auditing intergovernmental flows, and auditing tariffs for housing and communal services. The instructions also show the forms for reporting on audit activities. These instructions were repeatedly amended in collaboration with the MLSP and eventually issued in October 1997.*

4.2 “Policy Report No. 24: Results of Pilot Audit Programs and the Implications from the Creation of an Audit System for Targeted Assistance Program,” Prepared for the Ministry of Labor and Social Policy, August 1997.

*The report analyzes the cost-effectiveness of audits based on the experience of the pilot program conducted in November and December 1996. It finds that auditing can be cost effective if certain procedural changes in the auditing process are undertaken including clarification of place of employment on housing subsidy income certificates.*

4.3 “Interim Report on Experiment to Verify Income Submitted by Housing Subsidy Applicants Using the Tax Administration Office in Alchevsk,” Prepared for the Ministry of Labor and Social Protection, November 1, 1997.

*The report describes PADCO experiment in Alchevsk to match income declarations by applicants for housing subsidies to data maintained in local Tax Administration Offices. The pilot program has required the development of special software programs to extract information and match it with Tax Administration files -- including files on of legal entities registered in the raion and files of quarterly income declarations filed by self employed people and people registered for two jobs.*

4.4 “Guide to Auditing for Housing Subsidy Offices,” Prepared for the Ministry of Labor and Social Policy, December 1997.

*This report is a guide to auditing procedures, how to report on audit activities, and a description of the procedures for imposing sanctions in cases of fraud or error.*

## **5. HOUSING AND COMMUNAL SERVICES PAYMENTS’ SYSTEMS AND PRICING POLICY**

### **5.1 BACKGROUND**

Since the housing subsidy program has been closely linked to the phased increases in tariffs for housing and communal services, PADCO has periodically analyzed the fiscal impacts of the combined program of subsidies and tariff increases to measure the achievement of USAID-specified benchmarks, and has also undertaken many budget analyses for the Cabinet and for MinEcon. It has also prepared reports explaining why tariffs have been increased in Ukraine. At the same time, the system of paying for housing and communal services is inefficient and administratively cumbersome and costly. Therefore, PADCO has also worked with the SCACH on systems to improve payments procedures for housing and communal services. This work included a seminar to demonstrate new systems and a pilot program to computerize ZHEKs.

At the request of counterparts in the SCAHC, PADCO has also prepared a proposal for a program for restructuring the housing and communal services sector.

## 5.2 ACHIEVEMENTS AND DIFFICULTIES

Achievements. PADCO has provided the CoM, MLSP, and MinFin with regular estimates of the budget impacts of tariff changes. Overall, Ukraine has managed to increase tariffs to a higher level of cost recovery than Russia -- despite lower family incomes. The 1997 State Budget contained no further funding for general operating and capital subsidies to the housing and communal services sector after the end of June, although local administrations found money to continue some subsidies. In July 1998, the cabinet formally terminated all direct subsidies for the housing and communal services sector (other than those needed to cover privileges and housing subsidies granted to families). The Cabinet also delegated full responsibility for setting tariffs (including the price for housing maintenance) to oblast and local administrations.

Raising prices for housing and communal services -- even after allowing for the costs of targeted subsidies -- has reduced the deficit in the Consolidated State Budget of Ukraine. Because many households are now paying more, the government is spending less. In 1997, it is estimated that the housing subsidy program will cost about 1.5 billion Hrn. But the reduction in government spending on subsidies to the housing and communal services sector because of higher payments from families is projected to be 3.90 billion Hrn. The net impact on the budget of the program of tariff increases after allowing for the costs of the housing subsidies provided to low-income families was 2.4 billion Hrn. in 1997 (about \$1.33 billion).

PADCO with SCHME successfully collaborated to stage a conference in Lutsk, attended by nearly 200 people from throughout Ukraine, to demonstrate centralized account management and direct links between ZHEKs, the savings bank and communal services enterprises.<sup>6</sup> PADCO also successfully completed a pilot program to automate the systems of ZHEK accounting and that links cash receipts to computerized accounts. The software program is being adopted in some other raions and oblasts.

Difficulties. On June 1, 1997, the GOU failed to increase tariffs to cover 100 percent of cost recovery -- as they had agreed to do under their agreement with the IMF. Under the local government law enacted in June 1997, however, responsibility for tariff setting was decentralized and now rests with oblast and local governments.<sup>7</sup> No systematic procedures for this devolution have been developed -- although this is the topic of a proposal submitted by PADCO and a separate proposal submitted to USAID by RTI. In addition, the lax accounting systems and inflated normatives for the consumption of gas for heating for unmetered households means that many households are paying more than 100 percent of true costs.

## 5.3 ANNOTATED BIBLIOGRAPHY: HOUSING AND COMMUNAL SERVICES TARIFF AND PAYMENTS POLICY

5.1 "Restructuring the Housing Sector in Eastern Europe and in the CIS Countries," Report on the International Conference November 11-13, 1996, in Moscow, prepared for the MLSP and USAID, December 20, 1996.

*This report describes the experience of tariff increases and reforms in the housing and communal*

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<sup>6</sup> In September 1994, these monthly payments were, on average, equal to about 4 percent of the family's monthly income, and, coincidentally, about 4 percent of the actual costs of providing the housing and communal services. The amount each family must pay each month is shown in the family's rent book. About one family in five did not even pay this much. They were entitled to receive "privileges" -- discounts on the monthly payment due because the person was an invalid, a victim of Chernobyl, a former prisoner in a work camp, a veteran, or members of some other deserving group. Not surprisingly, privileged groups also included employees of the internal security system, members of the militia, judges, and public prosecutors.

Families paid their "rent" by presenting their rent book either at their local "ZHEK" -- the quasi-governmental organizations that manage most of Ukraine's housing -- or at the local branch of the savings bank. Payments are due by the 10<sup>th</sup> of the following month. Although non-payers may not be evicted (the Constitution of Ukraine guaranteed the right to housing, there were penalties for late payment equal to one percent of the amount owed for each day late.

<sup>7</sup> The "Law on Local Self-Government in Ukraine," May 21, 1997, 280/97, Section II. 2, Article 28. Local governments are required to set tariffs within the existing tangle of rules and regulations.

*services sector in the former Soviet Union and in Eastern Europe.*

5.2 "Interim Report on ZHEK Pilot Project Computerization Activities," Prepared for the State Committee for Housing and Municipal Economy, January 16, 1997

*The report describes progress and problems to date on the implementation of the pilot program to install cash machines in five ZHEKs and to develop new accounting software.*

5.3 "Report on the Lutsk Seminar on Improving Payments Systems for Housing and Communal Services," February 1997.

*The report describes the seminar in Lutsk, co-sponsored by PADCO and SCHME, attended by 200 housing and communal services department workers from all oblasts and many major cities. The two-day conference was used to demonstrate the PADCO-supported program in Alchevsk as well as the PADCO developed software for ZHEK account maintenance and payment receipts.*

5.4 "Policy Report No. 18: Ways to Improve the Payments System for Housing and Communal Services," Prepared in collaboration with the State Committee for Housing and Municipal Economy, February 1997.

*The report analyzes alternative systems through which families pay monthly for housing and communal services and the different systems used by communal services enterprises. It also describes the advantages and disadvantages of different ways to improve the system -- focusing on the benefits of the maintenance of accounts centrally as is done in Alchevsk and Lutsk. Partly as a result of the report and its widespread distribution to oblast and city communal services departments, several cities (including Kyiv) are in the process of developing central record keeping systems -- with advice from SSRT staff.*

5.5 "Policy Report No. 19: Why Ukrainians Are Paying More for Housing," Prepared jointly with the Ministry of Social Protection of the Population of Ukraine, March 1997.

*The report describes why tariffs for housing and communal services have been rising at double the rate of inflation since October 1994 -- linking the price increases to adjustments to the world price for oil and gas as well as to the restructuring of cost recovery policies. The report estimates the share of GDP devoted to housing and utilities in Ukraine and compares it to other developed countries. It also explains the consequences of the price increases for low-income families and the role of the housing subsidy program. It also describes the future path of reform and the further development of targeted assistance programs. The report was distributed widely to Deputies in the Supreme Rada as well as to all incoming classes of Peace Corps volunteers to enable them to understand an important aspect of local government operations in their community.*

5.6 "Final report on the ZHEK Pilot Project," Prepared for the State Committee for Housing and Municipal Economy, May 1997.

*The report reviews the experience of developing and implementing systems to computerize record keeping in ZHEKs and linking computerized accounts to cash machines to allow ZHEKs to receive cash payments that can be automatically credited to family accounts. The program was installed in five ZHEKs in sites selected by SCHME. The project found that, in most sites, ZHEK staff and management were unwilling or unprepared to make major changes in accounting procedures. In sites that were willing and able, the new accounting and cash payment system worked well.*

5.7 "The Consequences of Not Raising Housing and Communal Services Tariffs on June 1, 1997," Prepared for Deputy Minister Victor Kalnik, Minister of Economy, May 15, 1997.

*The paper describes the impacts on the budget of failing to raise tariffs, as scheduled, in June 1997, and also the likely impact of raising tariffs on the economic well being of families. It also projects enrollment in the housing subsidies program if tariffs are raised. The paper was prepared in response to repeated public announcements by the Cabinet of Ministers that tariffs should not be increased be-*

*cause it would lead to large increases in enrollment in the program. Kalnik opposed the decision and used the paper in defending the commitment to raise tariffs. Tariffs were not increased but the local government act – passed later in the month – decentralized responsibilities for tariff setting for all services (except gas and electricity) to local governments.*

5.8 “Program Complex ‘Housing’: A Manual for the Use of the PADCO/SCHME Computer Software Programs for ZHEKs,” August 1997.

*The manual (Ukrainian only) is a users’ manual for the complex of software programs developed by PADCO explaining how to computerize accounting and link cash machines with computerized accounts. SCHME distributed the manual to all oblasts and major cities with the result that 50 copies of the software program have been distributed and are being used by ZHEKs and oblasts.*

5.9 “Follow Up Report on the ZHEK Pilot Program,” Prepared for the State Committee for Architecture, Housing and Construction, November 19, 1997

*Report is based on follow up conversations with the five ZHEKs participating in the ZHEK pilot program. Only one ZHEK, in L’viv, is using the full system of cash machines and computer. Demonstrates that ZHEKs are not prepared to adopt automated procedures.*

## 6. HOUSEHOLD PAYMENTS FOR HOUSING AND COMMUNAL SERVICES AND HOUSEHOLD INDEBTEDNESS

### 6.1 BACKGROUND

When the program to raise tariffs incrementally until costs were fully recovered was first announced, most people predicted that families simply would not pay. Indeed, several deputies from the Supreme Rada actively recommended to participants at conferences and political meetings that families should not pay. They promised to roll back prices to their original levels and to reinstate the system of universal housing entitlements to all. The Cabinet passed a decree suspending all penalties for late payment coincident with the first increase in tariffs announced in October 1994. The suspension was effective for 6 months and has been renewed – first by the Cabinet and then by law of the Supreme Rada.

Surprisingly, the rate of indebtedness – the amount that is overdue as a percentage of the total monthly payments due – has increased only moderately. During Soviet times, the average ratio of debts in excess of 2 months was about 8-10 percent of monthly payments due. This started to increase in early 1990 as the living standard started to drop. It grew even faster as inflation soared in 1993 and 1994. But since then, it has remained more or less stable – although it usually jumps during the first month or two after a tariff increase, and then slowly falls again.

Today, over one half of all families are late in paying. Using this statistic, newspapers – and political opponents of tariff increases – have frequently alleged that “the payment system has broken down -- families aren’t paying simply because they can’t afford to: wages are low and often paid many months late.”

PADCO has examined regularly the extent to which families are paying higher tariffs and has monitored indebtedness among households and budget organizations for housing and communal services. Since there are no penalties associated with late payment (and it is doubtful if sanctions would be imposed even if they were on the books), the willingness of families to pay the dramatic increases in monthly payments is of concern. If payments lag, then the ability of communal services enterprises to continue to provide basic services – housing repairs, heating, water, and wastewater treatment – will be threatened. But existing statistics, compiled by GosKomStat did not measure accurately the degree of indebtedness among families.

## 6.2 ACHIEVEMENTS AND DIFFICULTIES

Achievements. PADCO has prepared two detailed reports based on sample sites on indebtedness for housing and communal services among families and budget organizations. With these reports, PADCO publicized the fact that actual indebtedness among families was lower than reports prepared by GosKomStat indicated. They have also shown the problems in the present system of reporting indebtedness by SCHME and GosKomStat.

Since October 1997, PADCO worked closely with GosKomStat to revise and improve the State Committee's monthly reports on indebtedness. Today, GosKomStat reports disaggregate indebtedness in the residential sector – separating debts of households and debts owed on behalf of households by local budget organizations (these include payments made to cover privileges and housing subsidies). The reports also use new measures of indebtedness developed by the SSRT that relate the level of debts to payments due rather than simply reporting the overall level. Since tariffs have been increasing, rising debts do not necessarily imply that households are falling further behind in their payments. In general, households are less indebted than local budget organizations.

Difficulties. The system of contracting for services between families and communal services is still undeveloped and most communal services enterprises are not effective in collecting payments. The unwillingness of GosKomStat to collaborate until late in 1997 delayed the development of a new indebtedness reporting system. But that problem has now been overcome. The remaining problem is the lack of resources in SCHACH to provide for more detailed reporting and analysis of the problem of indebtedness.

## 6.3 ANNOTATED BIBLIOGRAPHY: INDEBTEDNESS

### 6.1 “Policy Report No. 15: Housing and Communal Services Indebtedness in Kharkiv and L’viv Oblasts” Prepared for the State Committee for Housing and Municipal Economy, January 1997.

*The report describes the results of intensive auditing of accounts from ZHEKs in Kharkiv and L’viv Oblasts conducted by SSRT consultants. The data show the term of indebtedness among families in the sample areas, the volume of debts for different types of communal services. The results show that the problem of non-payment -- as distinct from the problem of late-payment -- is less serious than is suggested by the GosKomStat. It also shows that family indebtedness is directly related to wage arrears.*

### 6.2 “Policy Report No. 23: Indebtedness for Housing and Communal Services in Kharkiv and L’viv Oblasts and the City of Lutsk,” Prepared for the Ministry of Labor and Social Policy, October 1997.

*The report describes the results of intensive auditing of accounts from ZHEKs in Kharkiv and L’viv Oblast and the City of Lutsk conducted by SSRT consultants. The data show the term of indebtedness among families in the sample areas, and the volume of debts for different types of communal services. The results show that the problem of non-payment -- as distinct from the problem of late-payment -- is less serious than is suggested by the GosKomStat. For the first time, it separates indebtedness among families with debts of housing subsidy offices and debts for privileges by other budget organizations (hospitals, schools, and other agencies supported by budget appropriations) -- showing that the latter debts far exceed family debts in the pilot sites. The report has led to a program of collaboration between GosKomStat and PADCO to improve indebtedness data collection.*

### 6.3 “Indebtedness and Debt Repayment Among Families Enrolling in the Housing Subsidy Program,” Prepared for Deputy Minister Mikolya Noshchenko, Ministry of Labor and Social Policy, October 10, 1997.

*The report uses the database assembled from 19 sample raions (59,422 families) to examine how many indebted families enroll in the program and whether they repay their debts on schedule. The findings are that relatively few heavily indebted families enroll in the housing subsidy program but most of those that do enroll, repay debts on schedule.*

#### **6.4 “Policy Report No. 26: Indebtedness for Housing and Communal Services,” Prepared for the Ministry of Labor and Social Policy, September 1998.**

*The report describes the results of intensive auditing of accounts from ZHEKs in Kharkiv and L'viv Oblast and the City of Lutsk conducted by SSRT consultants. The data show the term of indebtedness among families in the sample areas, and the volume of debts for different types of communal services. The results show that the problem of non-payment -- as distinct from the problem of late-payment -- is less serious than is suggested by the GosKomStat. The report also compares national indebtedness data with data from these pilot sites.*

## **7. TARGETED ASSISTANCE TO FAMILIES**

### **7.1 BACKGROUND**

Ukraine offers many different types of social assistance intended to help low-income families. These include the housing subsidy program, a fixed birth allowance, and nine different childcare allowances (most of which are distributed through a parent's place of employment), social pensions, and other benefits. These are provided through a dozen different local agencies. Many are not effectively targeted and all use different eligibility criteria. The system is complex, expensive and provides very low benefits to households and families in need. Since 1996, PADCO has recommended that supplementary assistance be provided to low-income families – those with children are the poorest families among those receiving housing subsidies. A unified, targeted system of social assistance would allow benefits to poor families to be increased while eliminating benefits to families with higher incomes.

### **7.2 ACHIEVEMENTS AND DIFFICULTIES**

Achievements. During the course of this project, the concept of targeting assistance in order to meet the needs of the truly needy slowly gained ground within the Cabinet and within the MLSP. In late 1997, the GOU decided to develop a program along the lines of PADCO's repeated recommendations – leading to a draft law and the implementation of a pilot program that will be introduced nationwide during 1998. In October 1997, the President delivered the “Message on the Directions for Future Development of Social Assistance.” In this message, President Kuchma explicitly emphasized the importance of targeting as the basis for helping poor families and of reducing the budget cost of entitlement programs that the government cannot afford to honor. During 1998, the Cabinet drafted a comprehensive law on social assistance and began overhauling procedures for establishing eligibility for social assistance – including redefining the way the poverty level is defined.

In July 1998, a new draft law – prepared by the MLSP in collaboration with the SSRT and TACIS – was submitted to the Cabinet. This law, to be submitted to the Supreme Rada in early 1999, restructures all social assistance programs (see section 3.6 above). It would create a uniform system for defining recipients of targeted social assistance (the family), and a unified system of establishing eligibility (the minimum subsistence level). It also would use asset ownership as one of the eligibility conditions. It seems likely that a version of this guaranteed minimum income program will be introduced in pilot form in early 1999.

Difficulties. PADCO had recommended the adoption of a program to provide discount cards for low-income families using local mass-transit. This has not been adopted largely because the funding of local transit is a local responsibility. Some cities have introduced targeted assistance programs funded from their own resources.

### **7.3 ANNOTATED BIBLIOGRAPHY: TARGETING FAMILY ASSISTANCE**

7.1 “Options for Targeting Social Protection Benefits,” Prepared for Deputy Minister Noshchenko, MLSP, November 1996.

*The report recommends the conversion of some, or all, childcare entitlement benefits into targeted*

programs of assistance by using, as eligibility criteria, the same employed by the housing subsidy program.

## **7.2 “Policy Report No. 17: Proposals for Targeting Family Assistance” Prepared for the Ministry of Social Protection, February 1997.**

*The report recommends that four existing family assistance programs – two providing child care allowances and two providing birth allowances – that are not now targeted should provide benefits only to low income families. The report estimates that targeting these four programs would allow benefits for low income families to be doubled while still reducing total expenditures by 205 million Hrn in 1997. The report recommends that the procedures for targeting should be based on the approach used by the housing subsidy program. All targeted benefits would be allocated through a unified system of offices of targeted assistance subordinated to the Ministry of Labor and Social Policy. It also recommends that a program to allow low-income families to purchase monthly passes for transit systems at low prices should be developed to replace the transportation privileges that are being liquidated. Many of these recommendations were adopted by the MLSP in late 1997 as the principles for the new targeted system of family assistance the MLSP began to create at that time.*

## **7.3 “Policy Report: Why Ukraine Does Not Know Who Is Poor,” Prepared for the Ministry of Labor and Social Policy, February 1998.**

*The report presents the results of an analysis of housing subsidy caseload data from 19 pilot raions showing the average per capita income of families according to their composition -- distinguishing pensioners, children, and working age adults. It shows that families with children have the lowest per capita income. The second part of the report describes techniques for evaluating the advantages and disadvantages of using two alternative approaches for providing additional targeted assistance: the housing subsidy program caseload and the existing targeted child care assistance provided by the MLSP. It recommends using the housing subsidy program. The MLSP adopted this position in draft legislation prepared in November 1997.*

## **7.4 “Characteristics of Childcare Allowance Programs in Selected Countries,” Prepared for the Ministry of Labor and Social Policy, October 31, 1997.**

*This brief report outlines characteristics of childcare assistance programs in 22 western countries -- showing whether and how this assistance is targeted, the source of funding, the administering agency, and the level of benefits.*

# **8. MONITORING AND MANAGEMENT**

## **8.1 BACKGROUND**

The Housing Subsidy Program was implemented with a small staff in the MLSP. Until the summer of 1997, only seven people worked in the MLSP department responsible for designing, developing and implementing the program. Each oblast department of housing subsidies employed only three or four people. Since the program distributed benefits worth about \$750 million dollars in 1997 through a nationwide system of 756 offices staffed by 6,500 people, there is little systematic oversight of financial flows, program effectiveness, or administrative efficiency.

At the same time, the system for preparing regular statistical reports on the housing subsidy program was not reliable. Without reliable and timely numbers on program participation and obligations, good management is not possible.

## **8.2 ACHIEVEMENTS AND DIFFICULTIES**

Achievements. There have been major achievements in four areas of monitoring and management:



- 1) The creation of monitoring centers in Kharkiv and Kyiv subordinated to the MLSP with trained staff to compile and analyze statistics related to social protection; USAID provided equipment and PADCO has worked with staff, transferring software and analytic techniques. The staff of these centers will assume the work presently conducted by PADCO in collecting data and preparing statistical bulletins.
- 2) The development of statistical reporting systems at the national level for preparing monthly Statistical Bulletins on the housing subsidy program based on data collected from pilot raions.
- 3) The development of statistical reporting systems at the oblast level based on monthly reports from all raion offices that measure management as well as participation information;
- 4) The creation of an electronic library system containing all normative acts related to social assistance programs for installation in Ministry departments and oblast departments;
- 5) The creation of the communications infrastructure throughout Ukraine based on the installation of local area networks and e-mail connections in all oblast departments of social protection; and
- 6) The creation of pilot programs to test management and reporting systems in Mikolaiv and L'viv Oblasts.

Although these developments are intended, initially, for the housing subsidy program, they are also intended to serve as models for the development of similar monitoring and management programs for other social protection programs.

Although MinStat initially proved unwilling to collaborate on improving or expanding statistics reporting systems (during the first nine months of this project), when the MinStat was reformed as a State Committee in September, 1997, staff began a program of collaboration with PADCO to improve data collected and analyzed on housing subsidy participation and family indebtedness.

PADCO prepared, printed, and distributed a detailed "Office Procedures Manual" to all housing subsidy offices. The manual describes procedures for dealing with applicants, office management, auditing, the use of software programs, and other aspects of local office administration. The manual can be updated.

Difficulties. The Monitoring Center in Kyiv has developed slowly -- due to conflicts within the MLSP over management and use of the centers. In addition, the equipment purchased by USAID to set up the centers was delayed in customs for two months because of delays in creating the necessary regulations for the newly restructured Ministry. A seminar scheduled for representatives from all oblasts and from all large local offices to describe electronic reporting and management systems could not be scheduled by the MLSP because of its intensive work reforming the legal and administrative structure of targeted assistance programs for families.

### **8.3 ANNOTATED BIBLIOGRAPHY: MONITORING AND MANAGEMENT**

8.1 "Recommendations for the Standardization of Databases Used in Housing Subsidy Offices," Prepared for the Ministry of Social Protection, November 1996 (Ukrainian Only).

*This report describes in detail the information that should be maintained in caseload management software programs in order to comply with reporting and management requirements. The report was prepared at the request of the MSP because several local offices (most conspicuously, all offices in Kharkiv Oblast), had developed their own caseload management programs that omitted vital information. Because offices are not dually subordinated, the MSP could only recommend that offices comply, not require them to. The result is that relatively few offices converted their databases.*

8.2 "Statistical Bulletin No. 1: May 1995 - May 1996," Prepared in collaboration with the Ministry of Social Protection, December 1996.

*This is the first statistical bulletin developed to test the concept of the bulletin -- and therefore developed in collaboration with the MLSP. MLSP staff was involved in several meetings on the design of the bulletin. It was based on caseload data from only a single raion office but displays summary statistics on caseload participation and new enrollment.*

**8.3 “Statistical Bulletin No. 2: May 1995 - December 1996,” Prepared in collaboration with the Ministry of Social Protection, March 1997.**

*This is the second statistical bulletin developed to test the concept of the bulletin -- and therefore developed in collaboration with the MLSP. MLSP staff was involved in several meetings on the design of the bulletin. It was based on caseload data from four raion offices and displays summary statistics on caseload participation and new enrollment.*

**8.4 Users' Guide to the Use of NASH DIM Computer Program Complex (Ukrainian Only).**

*The Computer Programming Staff prepare and update a users' guide for the 350 offices that use this software program for the maintenance of caseload data, report preparation, and other functions.*

**8.5 “Procedure for Creating a Sample of Pilot Raions for Reporting Housing Subsidy Data,” Prepared for the Ministry of Social Protection, March 1997.**

*Based on the success of the Statistical Bulletins, the MLSP requested PADCO to prepare a system for preparing monthly Bulletins based on caseload information from a sample of raion housing subsidy offices to complement the monthly reporting produced by MinStat. In order to ensure that the sample raions are truly representative of the nation as a whole, PADCO developed a statistical selection technique and identified 36 “pilot raions” that would be used as the basis of the monthly bulletins.*

**8.6 Policy Report No. 25: Proposal To Create A Social Protection Monitoring Program in the Ministry of Social Protection,” Prepared for the Ministry of Social Protection, March 1997.**

*This report describes how a program to collect and analyze population and program caseload statistics could be constructed in the MSP. It describes different data sources and reporting networks as well as the type of reports and communications systems the program would utilize. The concept had been first developed in early 1996 for the Cabinet of Ministers -- when it had been planned that a Poverty Research Center would be created within the Cabinet, funded by the World Bank. This plan was abandoned when MinStat opposed the idea strenuously. But this report encouraged MLSP to create two monitoring centers -- described in ensuing reports by PADCO.*

**8.7 “Workplan for the Creation of Social Protection Monitoring Centers,” Prepared for the Ministry of Social Protection, May 1997.**

*At the request of the MSP, this report outlines a workplan for the implementation of monitoring centers in two facilities -- one in Kharkiv and one in Kyiv. It describes the steps needed to implement the centers and the equipment that will be needed for them to perform their activities. This plan was the basis of the equipment purchased for the centers by USAID and for the actual implementation of the centers.*

**8.8 “Policy Report No. 22: The Numbers Game: Why No-One Knows How Many Families Are receiving Housing Subsidies,” Prepared for the Ministry of Social Protection, May 1997.**

*This report examines the problems with the systems for collecting information about housing subsidy caseloads and family indebtedness through the systems employed by the Ministry of Statistics. It shows the inconsistencies and errors in reporting systems and proposes ways to solve the problems. This report eventually formed the basis for collaboration between the reformed MinStat and PADCO.*

**8.9 “Statistics Bulletin No. 3: May 1995 - February 1997,” Prepared in collaboration with the Ministry of Social Protection, May 1997.**

*This is the third statistical bulletin developed in collaboration with the MLSP. It reports on time-series caseload data from seven pilot raions selected from the pilot raion report. It displays tables and graphics summarizing statistics on caseload participation and new enrollment.*

**8.10 “Statistics Bulletin No. 4: May 1995 - April 1997,” Prepared in collaboration with the Ministry of Social Protection, May 1997.**

*This is the fourth statistical bulletin developed in collaboration with the MLSP. It reports on time series caseload data from nine pilot raions selected from the pilot raion report. It displays tables and graphics summarizing statistics on caseload participation and new enrollment.*

8.11 “Workplan for Collaboration on Social Protection Program Development in Mykolaiv Oblast,” Prepared for the Ministry of Labor and Social Policy and for the Oblast Department of Social Protection, July 24, 1997.

*This report was prepared following an intensive visit to Mykolaiv Oblast by SSRT. It describes a workplan for short term and long term collaboration with Mykolaiv Oblast in testing new social protection program initiatives including: the development of raion wide databases on recipients of all social protection services, testing new reporting software, the development of oblast level reporting systems, the expansion of computer technical assistance, and the development of “one-stop” service for families. The workplan is in the process of implementation.*

8.12 “Proposal for the Design of Monthly Reports by Oblasts on the Housing Subsidy Program,” Prepared for the Ministry of Labor and Social Policy, July, 1997.

*This report describes how monthly reports from raion housing subsidy offices can be compiled into oblast wide reports that can be used to provide overall information on the effectiveness of the housing subsidy program in providing protection for low-income families as well as management reports that reflect the relative performance of raion offices.*

8.13 “Electronic Library (Ukrainian Only),” Prepared at the request of the Ministry of Labor and Social Policy, various editions -- latest, February 1998.

*The electronic library is made available in machine-readable form to the Ministry, all oblasts, and to some large local housing subsidy offices. It may be updated automatically, via e-mail, by the MLSP. The latest edition includes all normative acts, ministry instructions, the MLSP quarterly newsletter, and other items relevant to the housing subsidy program and programs of childcare assistance, and pensions.*

8.14 “Management of Oblast and Local Housing Subsidy Offices,” Prepared for the Ministry of Labor and Social Policy, October 1997.

*This report describes techniques for oblast department managers and for local office managers for problem solving and day-to-day management. It includes “best practices” based on a survey of local offices.*

**8.15 “Statistics Bulletin No. 5: May 1995 - June 1997,” Prepared in collaboration with the Ministry of Labor and Social Policy, November 1997.**

*This is the fifth statistical bulletin developed in collaboration with the MLSP. It reports on time series caseload data from nineteen pilot raions selected from the pilot raion report. It displays tables and graphics summarizing statistics on caseload participation and new enrollment.*

**8.16 “Statistics Bulletin No. 6: May 1995 - December 1997,” Prepared in collaboration with the Ministry of Labor and Social Policy, April 1997.**

*This is the sixth statistical bulletin developed in collaboration with the MLSP. It reports on time series caseload data from 31 pilot raions selected from the pilot raion report. It displays tables and graphics summarizing statistics on caseload participation and new enrollment.*

**8.17 “Annual Statistics Review: May 1995 - December 1997,” Prepared in collaboration with the Ministry of Labor and Social Policy, June 1997.**

*This is the first annual statistical review developed in collaboration with the MLSP. It reports on time series caseload data from 31 pilot raions selected from the pilot raion report. It displays tables and graphics summarizing statistics on caseload participation and new enrollment.*

## 9. PENSION REFORM

### 9.1 BACKGROUND

The need for reform has been recognized by international organizations including the World Bank, the IMF and USAID. There has been increasing support among counterparts within the Cabinet of Ministers, the Pension Fund, and the Ministry of Labor and Social Policy. The major problems with the present system that reform is intended to solve include:

- The very low level of benefits paid to pensioners
- The lack of correlation between contributions paid and benefits received;
- The narrow range of pension benefits between those who never worked and those who worked for more than 30 years.
- The low rate of collection of payroll taxes -- a non-payment rate of about 20 % in the formal sector in 1997, and about 45% overall ;
- The high rate of payroll taxes – 33% to support the state pension system alone, and another 15% to support other social insurance funds;
- Delays in payments of pensions of up to eight months; and
- The high administrative costs of the system -- 8% of the value of pensions distributed.

Ukraine devotes 13 % of its measured GDP to pay for pensions, although the pensions it distributes fall far short of providing a minimum subsistence level of living for beneficiaries.<sup>8</sup> The share of GDP devoted to pensions is considerably above the average for developed countries. OECD members spend on average only 9.2 % of GDP for pensions. The large share of GDP devoted to pensions is not the result of a larger share of the population in the category of old and elderly people. In Ukraine, 18.7 % of the population are over the age of 60. The average for OECD members is 18.6 percent.

The most important reasons for the high share of GDP devoted to pensions in Ukraine are: 1) a large share of real GDP is produced in the gray economy -- and is not fully reflected in official statistics or in the payroll tax base that pays for pensions; 2) Many firms within the formal economy are bankrupt and are in arrears to the state pension fund; 3) many of the workforce in the formal economy are on unpaid leave; and 4) the relatively large fraction of people over the age of 55 (women) or 60 (men) in Ukraine who receive full pensions (the result of Ukraine's low pension age) and the fact that people who continue working receive full pensions.

PADCO has worked in three areas of pension reform: 1) supporting with comments and information the work of the pension reform Task Force convened in February, 1997; 2) designing and implementing a pension reporting program to reform the way enterprises report wages and payroll taxes (contributions) to the Pension Fund of Ukraine; and 3) developing an actuarial model of the state pension system and supporting the development of an Office of the Actuary within the pension fund to use this model.

### 9.2 ACHIEVEMENTS AND DIFFICULTIES

Achievements. PADCO developed a new reporting system that will provide the Pension Fund with quarterly reports from all employers (as well as self-employed individuals) listing wages paid and pension contributions due for each employee of the enterprise. The reporting system would enable the Pension Fund to create a database that would make it possible to calculate pension benefits based only on wages and service for which pension contributions have been made. PADCO also supported the work of the Pension Reform Task Force, created by the Cabinet of Ministers in February 1997, to negotiate the terms of a pension reform package that would trigger international support.

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<sup>8</sup> This includes state pensions and "privileged pensions" paid to workers entitled to receive pensions before the state pension age. The share of GDP devoted to pensions will rise considerably if the law increasing the minimum pension (formerly 37 Hrn) to the poverty level (approximately 71 Hrn) is implemented.

Starting in March 1998, PADCO was able to move forward much faster in its collaboration with the Cabinet of Ministers and with the Pension Fund of Ukraine. Because of the successful pilot program to introduce personified reporting by enterprises, the Pension Fund began collaborating on an improved version of the software program – completed in August 1998. Several Presidential decrees were issued in the summer of 1998, requiring personified reporting and authorizing pilot projects to test and develop the system. began in October despite the Cabinet focus on collecting late payments to the Pension Fund.

In addition, PADCO began work developing an actuarial model of the state pension system. A preliminary version of this was presented to the Ministry of Finance, MLSP, and the Pension Fund. There is now close collaboration with PADCO on expanding and refining this model. At the recommendation of PADCO, Min-Fin approved the creation of an Office of the Actuary within the Pension Fund – staffed by people with mathematical analysis, statistics and computer backgrounds. These staff will work closely with the SSRT on developing and using the actuarial model.

PADCO has also assisted the government with other financial issues such as evaluation of the impact of a wage limit on collection of contributions, technical analysis of the problems with guarantee funds for the non-State pension system, evaluation of the cost of increasing the minimum pension benefit, evaluation of the cost of the increase in minimum and maximum benefit levels on March 1, 1998, projection of the assets in the mandatory pension system, actuarial equivalence factors and delayed retirement, and the creation of a benefit projection model for the proposed draft law, “On Mandatory State Pension Insurance.”

PADCO has also provided detailed comments on draft laws related to reform of the state solidarity system as well as the creation of non-state pension systems. In September 1998, under contract with USAID, PADCO organized a seminar on all aspects of creating and regulating non-state pensions that included participants from the USA, Hungary and Poland as well as about 50 attendees from Ukraine.

In the past few months, PADCO has coordinated closely with key policy makers in the World Bank in an effort to reach consensus on an overall strategy for pension reform. This includes encouraging the Bank to accept incentives for delayed retirement instead of immediate increases in the retirement age, and a more phased plan for introducing a funded pillar. This strategy involves rapidly developing a non-State pension fund law for voluntary savings, building a regulatory capacity, and delaying the introduction of the mandatory pillar for several years.

Difficulties. The 1997 Task Force was not well organized and did not approach issues systematically. Despite (or, perhaps, because of) intensive efforts by the World Bank and Harvard International Institute for Development, proposals for major restructuring of pensions in 1997 failed. In June 1997, the World Bank suspended its offer of a loan of between \$200 million and \$400 million for pension reform in Ukraine when the GOU rejected its requirements to raise the pension age and begin funding the system. The GOU clearly felt that the period before the March 1998 elections for the Supreme Rada was an awkward time to meet these conditions.

Lengthy discussions on pension reforms were probably doomed because the goals of the GOU were focused on the immediate problems of reducing the arrears in pension payments while international donors were more interested in the long-term viability of the system. There were also fundamental disagreements among international advisors over the role of private pension systems -- whether they should ultimately replace the public system or provide a voluntary supplement.

Although these problems slowed pension reforms, the recent work of the SSRT has largely mended bridges and, during 1998, moved forward quickly. The size and the complexity of the task will continue to present major obstacles to faster reform – especially in view of the lack of analytic expertise in the Pension Fund or the Cabinet of Ministers.

The current economic crisis also adds to pension reform difficulties. The current financial crisis has also slowed the development of capital markets, devalued the currency, increased the budget deficits, and slowed overall economic growth. The sheer number of new organizations, laws, and administrative systems needed, and the limits on government capacity to implement. However, this is likely for the best, as reform requires a systematic and planned approach.

### 9.3 ANNOTATED BIBLIOGRAPHY: PENSION REFORM

9.1 “Steps Toward Pension Reform in Ukraine,” Prepared for the Ministry of Labor and Social Policy, January 1997.

*The report summarizes the major steps that are needed to restructure the public pension system in Ukraine and to begin the process of building supplementary private pension systems. The paper describes the steps needed to build a new system of reporting and record keeping by the Pension Fund (which was the basis of the pilot reporting project later developed and implemented by PADCO). It also describes how these records could be used to abolish workbooks, increase the efficiency of collecting revenues, and develop an experience-based benefit system more efficient than the present one. It outlines the need for a public education program to accompany the process.*

9.2 “Pension Reporting Project: Proposed System for Changing Payroll Tax Reporting Requirements and for Establishing a Wage and Payroll Tax Database,” Prepared for the Pension Fund of Ukraine, the Pension Fund of the City of Kyiv, USAID and international organizations, June, 1997 (with subsequent revisions).

*This report describes the deficiencies in the current reporting system, the plan for a new system which would require all enterprises to provide the Pension Fund with records of each of their employees (rather than an aggregate enterprise amount as under the current system), and the benefits the proposed system would provide to the Pension Fund and other government agencies.*

9.3 “PROTOCOL OF COOPERATION between the Pension Fund of Ukraine and PADCO/USAID,” Prepared for the Pension Fund of Ukraine, Effective August 18, 1997, through November 30, 1997.

*The protocol describes the goals of the proposed pension reporting program and collaboration between the Pension Fund and PADCO to develop a reporting system to be used at the enterprise and raion levels.*

9.4 “The Private Pension System in Ukraine,” Prepared for the Ministry of Labor and Social Policy, and the Pension Fund of Ukraine, November 1997.

*The paper describes the current status of the private pension system in Ukraine, the history of the system, laws and regulations affecting its development, and comments on the potential effect of recently-enacted or pending legislation.*

9.5 “Final Report on the Pension Fund Pilot Reporting Project,” Prepared for USAID, December 1997.

*This report described the work conducted by PADCO in the development of the pension-reporting program along with the results attained. It includes a matrix of tasks that were completed (along with dates of completion), the Protocol of Cooperation and Installation and Users Manual (mentioned above), a Ministry Instruction for the project drafted by PADCO, and a report prepared for the Pension Fund titled “Individual Reporting Project: Recommended Future Actions to be Undertaken by the Pension Fund.”*

9.6 “Actuarial Support for the Solidarity System”, Prepared for the government of Ukraine and USAID, May 1998.

*This report describes the need to develop analytic capabilities within the government of Ukraine. This requires the establishment of an Office of the Actuary within the government of Ukraine. The report describes the structure, purpose and activities of the Office of the Actuary.*

- 9.7 “Lessons for Ukraine: Kazakhstan’s Experience with Non-State Pension Funds”, Prepared for the Ministry of Labor and Social Protection for inclusion in a special journal dedicated to pension reform, May 1998

*This article describes the problems with the implementation and design of the new mandatory pension system in Kazakhstan, and how these same problems can be avoided in Ukraine.*

- 9.8 “Replacement Ratio Analysis, Proposed Pension System Reform”, Prepared for Deputy Minister of Labor and Social Protection, Olena Garyacha, May 1998

*This report documents an Excel model which projects benefits under the draft law “On Mandatory Pension Insurance”. The model projects benefits under both the solidarity and accumulation systems, and was delivered to MLSP along with the documentation.*

- 9.9 “Comments on the draft law of Ukraine “On Mandatory Pension Insurance”, Prepared for USAID and the government of Ukraine, June 1998

*We submitted general comments and article-by-article comments on this draft law. In general, we found most of the provisions relating to solidarity system reform to be reasonable, but the provisions relating to the mandatory second pillar to be wholly inadequate.*

- 9.10 “Financial Analysis of the Draft Law “On Mandatory Pension Insurance”, Prepared for Deputy Finance Minister Matvichuk, June 1998

*This report documents an Excel model which projects contributions and benefit payments under the current pension system, and with the proposed changes under the law “On Mandatory Pension Insurance” for each of the next 10 years. The model is parameterized, and can easily be modified to reflect different assumptions regarding overall economic conditions, demographic assumptions, and actuarial assumptions.*

- 9.11 “A Pension Reform Strategy for Ukraine”, Prepared for USAID, July 1998:

*This paper outlines our general approach to pension reform in Ukraine. It proposes building basic foundations such as laws, regulations and administrative systems first. Concurrent with this, changes are made to the solidarity system to bring it into long-term actuarial balance and create short-term surpluses. These surpluses are used to finance the introduction of the funded pillar.*

- 9.12 “Actuarial Model of the Pension System of Ukraine, Version 1.1”, Prepared for the government of Ukraine and USAID, July, 1998

*The actuarial model was revised based on comments received from the Pension Fund, MinFin and the MLSP. It added additional detail to the model regarding the breakdown of total pension into basic pensions, supplements, and targeted assistance. It also modified the allocation of benefit payments under the draft law between the Pension Fund and the State budget. This model also included projections of the total assets in the accumulation system each year, including contributions, investment income, benefit payments and expenses.*

- 9.15 “Comments on the draft law of Ukraine, “On Non-State Pension Funds”, Prepared for USAID and the government of Ukraine, August 1998:

*We submitted general comments and article-by-article comments on this draft law. In general, we feel the current draft law does not adequately protect the assets and interests of plan participants. There is inadequate legal separation of assets. There are also inadequate reporting and disclosure requirements. In addition, the proposed structure of the industry will not encourage the formation of pension funds, and provides for maximum fees and reserves that are too high.*

- 9.16 “Establishing a Maximum Amount of Wages Subject to Payroll Taxes”, Prepared for the government of Ukraine and USAID, August 1998:

*We produced analysis of the financial impact of limiting contributions to only the first 1,000 hrivnya of monthly pay. The report also comments on ways to improve the draft decree, and the impact of alternative limits on compliance and revenue.*

- 9.17 “Revised version of pension model, Version 1.11”, Prepared for the government of Ukraine and USAID, August 1998:

*This report documents additional revisions to the model based on comments from the MLSP, MinFin and the Pension Fund. The revised model was distributed together with the report. This is the most recent version of the model*

- 9.18 “Actuarial Equivalence, Delayed and Early Retirement”, Prepared for the government of Ukraine and USAID, August 1998:

*This report describes the use of actuarial increases and decreases to encourage delayed retirement and penalize early retirement. It also describes the use of these incentives in other countries, including the United States and Kazakstan.*

- 9.19 “Proceedings of the September 1998 Seminar on Non-State Pensions,” Prepared for USAID, October 1998.

*This contains the papers and presentations of the participants in the 3-day seminar on the steps needed to create the legal and regulatory framework for the development of a safe and viable private pension system in Ukraine.*

- 9.20 “The Regulation of Non-State Pension Systems,” Prepared for the GOU and USAID, September 1998.

*This manual analyzes and describes the regulatory framework needed to govern different types of financial transactions and provides ways in which the GOU could improve its administration of the pension system.*

- 9.21 “Projecting Benefits for Future Retirees”, Prepared for the GOU and USAID, October 1998:

*This report documents a separate Excel model which estimates the number of future retirees and the benefits payable to those retirees. The previous model uses a much simpler and less accurate procedures to estimate the number of future retirees by type and their benefits. This model uses a much more sophisticated algorithm, which should eventually be incorporated into the existing actuarial model.*

- 9.22 “ Why Ukraine Should Not Establish a Guarantee Fund for Non-State Pension Funds (with Technical Appendix)”, Prepared for the GOU and USAID, October 1998:

*This report demonstrates why the concept of a guarantee fund for non-State pension plans is unlikely to be successful. The report includes a technical appendix with detailed mathematical analysis of the numbers contained in the main report*

- 9.23 “Creating a National Pensioner Database and Improving the Pension Reporting System”, Prepared for the GOU and USAID, October 1998:

*This report recommends the government develop a national pensioner database. This is needed for financial models of the pension system, and also to improve management information systems*

- 9.24 “Impact of Draft Law Changes”, Prepared for the Parliament Committee on Pensions and Veterans, November 1998:

*Parliament proposed a law which would increase the minimum old-age pension and the related maximum pension benefits. We provided financial analysis of the impact of this draft law.*



## 10. ANALYSIS OF ATTITUDES AMONG SUPREME RADA DEPUTIES TOWARD SOCIAL PROTECTION ISSUES

### 10.1 BACKGROUND

Concern over the adequacy of social protection provided to the people and families of Ukraine during the difficult period of economic and social transition is, not surprisingly, a major concern of elected officials. It is often the major grounds for opposition to further reforms. In April 1995, for example, the Supreme Rada dismissed the entire Cabinet for its failure to protect adequately the population of Ukraine. In 1996 and 1997, there were frequent head-to-head conflicts between the Rada and the Cabinet and the President over the definition of the poverty level and the appropriate level of pension benefits.

Because of the political prominence of the social protection issues in which PADCO is involved and because issues are debated, often with little notice, PADCO has prepared regular reports analyzing voting patterns among by Deputies in the Supreme Rada on key social protection issues. In addition, PADCO has prepared regular reports analyzing voting patterns among factions on key social protection issues. PADCO has also distributed copies of its policy reports among a core group of 50 “key” deputies – those who are regarded as opinion leaders among the other deputies.

### 10.2 ACHIEVEMENTS AND DIFFICULTIES

**Achievements.** PADCO has prepared a software program for analyzing the changing patterns of voting on social protection issues among deputies from different factions. Among other benefits, this allows the identification of key deputies on social protection issues. These deputies are the targets for the distribution of policy reports and information by PADCO. PADCO has also developed a system for monthly reporting of activities related to social protection that is provided to USAID.

PADCO also prepares six-month summaries of changes in normative acts related to social protection issues and summaries of the treatment of social protection issues in newspapers.

**Difficulties.** An enormous gulf remains between the Cabinet of Ministers and Deputies from the Supreme Rada. This is manifest in the willingness of deputies to vote overwhelmingly for large increases in government benefits or to raise the poverty level even when there are neither money to honor the law nor procedures for allocating the resources to people in need. Although individual deputies are, in part, at fault, most of the blame must lay with the Cabinet.

### 10.3 ANNOTATED BIBLIOGRAPHY: ANALYSIS OF SUPREME RADA

#### 10.1 “Policy Report No. 21: Changes in Normative Acts of Ukraine on Social Protection of the Population: May-December, 1996,” Prepared for the Ministry of Social Protection, March 1997.

*The report summarizes Forty eight normative acts – six laws and four resolutions of the Supreme Rada of Ukraine, three decrees of the President of Ukraine, 24 decrees and 1 order of the Cabinet of Ministers – adopted between May and December, 1996 as well as press coverage from over 50 articles in newspapers.*

#### 10.2 “Policy Report No. 16: Attitudes Toward and Voting On Social Protection Issues Among People’s Deputies of Ukraine,” Prepared for the Ministry of Social Protection, January 1997.

*Analyses campaign statements and voting on social protection laws by deputies of the Supreme Rada during 1996. It analyses convergence in attitudes among different factions.*

#### 10.3 “Policy Report No. 24: Changes in Normative Acts of Ukraine on Social Protection of the Population: January – June 1997,” Prepared for the Ministry of Labor and Social Policy, January 1998.

*The report summarizes fifty six normative acts – six laws and four resolutions of the Supreme Rada of*

*Ukraine (SR), three decrees of the President of Ukraine, 24 decrees and 1 order of the Cabinet of Ministers (CM) – adopted in 1997 as well as press coverage from over 85 articles in newspapers.*

**10.4 “Policy Report No. 25: Changes in Normative Acts of Ukraine on Social Protection of the Population: July 1997 – March 1998,” Prepared for the Ministry of Labor and Social Policy, September 1998.**

*The report summarizes 48 normative acts – 16 laws and 1 resolutions of the Supreme Rada of Ukraine (SR), 7 decrees of the President of Ukraine, 18 decrees of the Cabinet of Ministers (CM) – adopted between July 1997 and March 1998 as well as press coverage from over 80 articles in newspapers.*

## **11. MISCELLANEOUS PAPERS AND MATERIALS**

### **11.1 BACKGROUND**

The experience of providing successful technical assistance in the design and implementation of social sector restructuring projects in Ukraine has widely applicable lessons for other central European countries and for members of the former Soviet Union. These countries face the same basic problem of switching government activity from one of providing a low-level of services for all citizens to one of providing greater but targeted assistance to poor families as prices are reformed and privatization grows.

But lessons -- positive and negative -- can only be learned when information and analysis is shared among international donors and with policymakers in those transition economies. This requires the preparation of two types of papers: 1) analytic documents identifying what has worked and what has not worked in other countries -- to be presented at national and international seminars; and 2) stories in the media (in the host country and the donor country -- and, perhaps in other countries -- explaining the what and why of reforms).

### **11.2 ACHIEVEMENTS AND DIFFICULTIES**

Achievements. PADCO has participated in six international seminars -- two each in Ukraine and Russia, and one in Moldova and the USA. For each, the staff prepared special papers. It is clear from this limited experience that other countries and other programs of technical assistance can benefit from Ukraine's experience of creating, *de novo*, a program of targeted help to poor families. It is also clear that there are few comparable programs elsewhere that provide the comprehensive level of technical assistance -- from policy design, legislative drafting, staff and administrator training, to software development, and trouble shooting -- that PADCO has provided in Ukraine.

In addition to its limited participation in international conferences, PADCO has prepared, for USAID and for others, materials describing the achievements of the social sector restructuring program. These articles are intended for use in the west to explain how it is possible to put “a human face” on market reforms. PADCO has also collaborated with Smith McCabe and Gavin Anderson in the preparation of radio and TV spots related to social sector reforms as well as of posters and notices for housing subsidy offices.

Difficulties. The successes of and the lessons from the experience of social sector restructuring programs are still largely unknown. This is the result of the absence of a separate research budget for the project that precludes any serious “introspection.” By comparison, the Urban Institute receives a large budget for research and analysis in its work designing the housing allowances program and restructuring communal services in Russia. At the same time, USAID Kyiv has not sponsored any conferences or seminars in which experiences in social sector restructuring could be shared among the international donor community.

### **11.3 ANNOTATED BIBLIOGRAPHY: MISCELLANEOUS PAPERS**

11.1 “Cost Recovery Reforms in Ukraine,” Prepared for Cabinet of Ministers of Ukraine, to be presented at the USAID-sponsored conference in Moscow, November 1996.

*The paper describes the progress toward 100 percent cost recovery in Ukraine and the implementation of targeted assistance to help low income families.*

11.2 "The Housing Subsidy Program in Ukraine," Prepared for the Staff of the Cabinet Department of Labor and Social Protection, June 1997, and reprinted in the Ukrainian *The Journal of Social Issues*.

*The article summarizes the history and the present status of the housing subsidy program, describes changes in enrollments and benefits, and recommends the further developments for targeted assistance programs in Ukraine.*

11.3 "Implementing Social Protection Reforms in Ukraine," Prepared for TACIS Conference on Social Protection, July 1997, Kyiv.

*The paper summarizes the reasons it has been possible to implement the housing subsidy program quickly in Ukraine, the problems that confront any international program of technical assistance in the social protection area and recommendations for dealing with these problems.*

11.4 "Protecting Low-Income Families from the Consequences of Price Reforms for Housing and Communal Services: Lessons for Moldova," Prepared for Seminar on Housing Reform Policy in Moldova, sponsored by the World Bank, September 10-11, 1997.

*The paper describes the implementation of the housing subsidy program in Ukraine and how the program could be implemented in Moldova. The paper describes the budget savings from eliminating state support for local utilities. The paper may provide the foundation for a World Bank sponsored project to develop a housing subsidy program in Moldova.*

11.5 "Making Families Pay for Housing and Communal Services: The Experience of Ukraine," Paper prepared for a seminar on international experiences with cost recovery for public services, sponsored by USAID/RTI in Washington DC, September 22-23, 1997.

*The paper describes the history of tariff reform in Ukraine, the evolution of the housing subsidy program, and the problems that must still be addressed to ensure a sustained and efficient program. The issues include auditing, management and monitoring, and one-stop service. The paper is being printed in the conference proceedings.*

11.6 "Targeted Assistance Programs In Ukraine," Prepared for United Nations Conference on Poverty in Ukraine, Kyiv, October 1997.

*The paper describes how the housing subsidy program provides for very low-income families -- describing their characteristics.*

11.7 "Putting a Human Face on Economic Reforms," Prepared for USAID to publicize achievements of the social sector restructuring program, August 1997.

## **ATTACHMENT:**

### **MAJOR COUNTERPARTS TO SOCIAL SECTOR RESTRUCTURING PROJECT IN UKRAINE**

#### **1. MINISTRY OF LABOR AND SOCIAL POLICY**

1. Vegera, Svitlana Anatolyivna, First Deputy Minister of Labor and Social Policy
2. Noshchenko, Mykola Petrovich, Deputy Minister
3. Garacha, Olena Vasylivna, Deputy Minister
4. Rudenko, Vasyl Mykolayovich, Deputy Minister
5. Stefanovsky, Georgy Stefanovich, Head of Department
6. Timoshenko, Nadiya Vasylivna, Head of Department
7. Gnibidenko, Ivan Fedorovich, Head of Department

#### **2. STATE COMMITTEE FOR ARCHITECTURE, CONSTRUCTION AND HOUSING**

1. Gusakov, Volodymyr Mykolayovich, Head of State Committee for Architecture, Construction and Development
2. Rul, Mykola Volodymyrovich, Deputy Head of State Committee
3. Onischuk, Georgy Ilyich, First Deputy Head of State Committee

#### **3. STATE COMMITTEE FOR STATISTICS**

1. Osaulenko, Oleksandr Grygorovich, Head of State Committee for Statistics
2. Vlasenko, Natalia Stepanivna, Deputy Head of State Committee
3. Kalachova, Iryna Volodymyrivna, Head of Department
4. Khobta, Svitlana Ivanivna, Head of Department

#### **4. OTHER**

1. Novikov, Valery Mykolayovich, Advisor for the President
2. Matvichuk, Volodymyr Makarovich, Deputy Minister of Finance
3. Kalnyk, Victor Martinovich, Deputy Minister of Economy
4. Pynzenyk, Viktor Mykhaylovich, Deputy of Supreme Rada
5. Kucherenko, Olena Vasylivna, Head of Department, National Agency for Reconstruction and Development
6. Myznikova, Olena Mykolaivna, Chief Specialist, National Agency for Reconstruction and Development
7. Shklyarsky, Yuri Olexandrovich, Head of Mykolaiv Oblast Social Protection Department
8. Ivankevich, Viktor Viktorovich, Head of Department, Cabinet of Ministers
9. Bevs, Volodymyr Petrovich, deputy Head of Department, Cabinet of Ministers
10. Podust, Lyudmila Andriyivna, Head of Department, Kiev City State Administration
11. Drogul, Tatiana Grigoryivna, Deputy Director, Computerized Information Center, Supreme Rada